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Message Text

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14
ACTION TRSE-00

INFO OCT-01 EA-11 ADP-00 IO-13 CEA-02 NEA-10 AID-20 EB-11

NSC-10 RSC-01 CIEP-02 SS-15 STR-08 OMB-01 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 L-03 H-02 PA-03 USIA-12 PRS-01 EUR-25 ABF-01

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USADB

TREASURY FOR FINKEL

E O 11652: ADS, DECLAS 12/31/73
TAGS: EFIN, EAID
SUBJ: PROTECTION ADB CAPITAL RESOURCES AGAINST EXCHANGE RATE MOVEMENTS

1. TWO DEVALUATIONS OF U. S. DOLLAR HAVE RESULTED IN AGGREGATE LOSS TO BANK OF $17.7 MILLION ARISING FROM BANK HOLDINGS IN U. S. DOLLARS AND POUNDS STERLING IN EXCESS OF CEILING TO WHICH U. S. AND U. K. COMMITTED TO MAINTAIN VALUE IN TERMS OF 1966 DOLLAR. NUMEROUS MEMBER COUNTRIES HAVE MADE PART OR WHOLE OF PAYMENT OF ARTICLE 6.2(A) PORTION OF CAPITAL SUBSCRIPTION IN U. S. DOLLARS AND, TO CERTAIN EXTENT, IN POUNDS STERLING. COUNTRY MAKING SUCH PAYMENT NOT OBLIGATED TO MAINTAIN VALUE OF U. S. DOLLARS OR POUNDS STERLING SO CONTRIBUTED AND U. S. AND U. K. OBLIGATED ONLY TO EXTENT OF INITIAL PAID- IN CAPITAL AMOUNT ($100 MILLION FOR U. S. IN 1966 DOLLARS).
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2. UNDER MAINTENANCE OF VALUE RESOLUTION OF BOARD ADOPTED MARCH 1968, SWITCHING FROM ONE CURRENCY TO ANOTHER PERMITTED TO PROTECT BANK RESOURCES. IN PRACTICE, SWITCHING EFFECTED ONLY AFTER CONCURRENCE OF U. S. AND U. K. GOVERNMENTS OBTAINED AND THEN ONLY WHEN SWITCH WAS INTO CURRENCY WHERE BANK HOLDINGS BELOW MAINTENANCE OF VALUE CEILING. EXTENT OF SWITCH UP TO CEILING AMOUNT ONLY. AVAILABLE CEILINGS QUICKLY REACHED (MAJORITY OF SWITCHING FROM POUNDS STERLING INTO OTHER CURRENCIES WHILE ONLY DOLLAR SWITCH TO DATE WAS CONVERSION OF .75 MILLION U. S. DOLLARS TO CANADIAN DOLLAR TO BRING CANADIAN DOLLAR CONTRIBUTION TO ITS CEILING) LEAVING NO POSSIBILITY FOR FURTHER SWITCHING.

3. AS RESULT OF INITIAL PAID- IN CAPITAL CONTRIBUTION AND FIRST TRANCHE OF CAPITAL REPLENISHMENT, BANK CURRENTLY HOLDS ROUGHLY $90 MILLION IN EXCESS OF U. S. MAINTENANCE OF VALUE OBLIGATION OF $100 MILLION AND $7.1 MILLION OF POUNDS EQUIVALENT ABOVE U. K. MAINTENANCE OF VALUE OBLIGATION LIMIT. TO REDUCE RISK OF FURTHER LOSS AS RESULT OF SUBSEQUENT EXCHANGE RATE ADJUSTMENTS, BANK SUGGESTS THAT ABOVE $97 MILLION IN EXCESS OF CEILINGS BE SWITCHED INTO 15 DONOR COUNTRY CURRENCIES ON BASIS OF PROPORTIONATE OWNERSHIP OF BANK' S SHARES (INCLUDING PROSPECTIVE U. S. OWNERSHIP BASED ON CAPITAL INCREASE). AS INDICATED BELOW, BANK PROPOSAL REPRESENTS A NET SWITCHING OUT OF DOLLARS INTO OTHER HARD CURRENCIES OF ROUGHLY $60 MILLION. IF SCHEME ADOPTED, SOME PROPOSED DISTRIBUTION WOULD APPLY TO ALL FUTURE PAYMENTS IN WHICH BANK HOLDINGS OF DOLLARS AND/ OR POUNDS IN EXCESS OF MAINTENANCE OF VALUE CEILINGS.

TABLE I

PAYMENT OF SUBSCRIPTIONS

CONVERTIBLE CURRENCY PORTION IN CURRENCIES OTHER THAN MEMBERS' S OWN CURRENCY - EXPRESSED IN 1973 US DOLLAR

PAYMENT IN US DOLLARS	$90,638
LESS: AMOUNT TRANSFERRED (SWITCHED)	744
BALANCE (1)	89,894
PAYMENT IN POUND STERLING	18,894

LESS: AMOUNT TRANSFERRED (SWITCHED)	11,787
BALANCE (2)	7,107
TOTAL (1) PLUS (2)	$97,001

TABLE II

EXCESS U. S. DOLLARS AND POUND

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STERLING DISTRIBUTED ACCORDING TO PERCENT OF SHARES

AUSTRIA	$ 757
AUSTRALIA	12,843
BELGIUM	757
CANADA	3,783
DENMARK	757
FRANCE	3,783
GERMANY	5,140
ITALY	1,213
JAPAN	30,215
NETHERLANDS	6,659
NORWAY	301
SWEDEN	301
SWITZERLAND	757
UNITED KINGDOM	4,520
UNITED STATES	30,215
TOTAL	$97,001

4. PROPOSAL OUTLINED ABOVE MENTIONED BRIEFLY AND VAGUELY TO VOLCKER AND HENNESSY DURING FINAL DISCUSSION WITH PRESIDENT INOUE AT ANNUAL MEETINGS. PRESIDENT INOUE EMPHASIZED RECENTLY THAT BANK PROPOSAL ONE OF MANY POSSIBILITIES AND THAT BANK CERTAINLY OPEN TO ANY SUGGESTIONS FROM U. S. SIDE REGARDING PROBLEM. PROPOSAL IN QUESTION ATTRACTIVE FROM HIS POINT OF VIEW BECAUSE ALLOCATION OF EXCESS DISTRIBUTED ON BASIS OBJECTIVE CRITERION. BANK WOULD LIKE TO TAKE ACTION ON THIS MATTER IN THE NEAR FUTURE BUT WILL DO SO ONLY WITH CONCURRENCE OF U. S. GOVERNMENT ON THIS OR SOME OTHER SCHEME MUTUALLY ACCEPTABLE.

5. USADB RECOGNIZES IMPORTANCE TO BANK OF NEED TO PROTECT ITSELF AGAINST FURTHER LOSSES RESULTING FROM EXCHANGE RATE MOVEMENTS AND CONSIDERS BANK PROPOSAL TO BE REASONABLE. APPEARS

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THAT ANY PROPOSAL WHICH SERIOUSLY ADDRESSES ISSUE MUST HAVE ADVERSE BALANCE- OF- PAYMENTS REPERCUSIONS FOR U. S. IF BANK PROPOSAL ACCEPTABLE IN PRINCIPLE TO USG, WOULD SUGGEST THAT ADJUSTMENT PROCESS BE EFFECTED OVER PERIOD OF TIME TO STRING OUT BALANCE OF PAYMENTS IMPACT.

6. MEMORANDUM FROM TREASURER ADB TO USADB THIS SUBJECT BEING POUCHED.
HAMILTON

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